

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy and)
Its Tariff Filing to Implement a General Rate) **Case No. GR-2009-0355**
Increase for Natural Gas Service)

PARTIAL STIPULATION AND AGREEMENT

COME NOW Missouri Gas Energy, a division of Southern Union Company (“MGE”); the Staff of the Missouri Public Service Commission (“Staff”); the Office of the Public Counsel (“OPC”); Midwest Gas Users’ Association (“MGUA”); University of Missouri at Kansas City (“UMKC”), University of Central Missouri (“UCM”), and Superior Bowen Asphalt Co., LLC (“Superior Bowen”); Constellation NewEnergy-Gas Division, LLC (“Constellation”); and, ONEOK Energy Marketing Company (“ONEOK”) ; (collectively the “Parties” or individually a “Party”), and respectfully submit the following Partial Stipulation and Agreement (“Stipulation”) to the Missouri Public Service Commission (“Commission”).

1. **Issues Not Settled.**

If this Stipulation is approved by the Commission, the following issues remain to be tried by the parties and decided by the Commission:

- a. Rate Design:
 - i. SGS Class (including re-defined class)
 - ii. Residential.
- b. Rate of Return/Capital Structure/Cost of Capital.
 - i. Capital Structure
 - ii. ROE
 - iii. Cost of Debt [all debt costs]
 - iv. Rate Design Risk Issue
- c. Energy Efficiency

2. **Issues Settled.** This Stipulation is intended to settle all issues among the Parties for purposes of Case No. GR-2009-0355, except the issues specifically enumerated in paragraph 1

above (“Issues Not Settled”). The Stipulation is not “unanimous” because, as noted below, certain parties have not joined as signatories to the document or in the resolution of individual issues. However, those parties have further affirmatively stated their non-opposition and waived their right to a hearing.

3. **Class Cost of Service.**

a. It is agreed that LVS class normalized present non-gas revenues shall be reduced by \$400,000 and residential class normalized present non-gas revenues shall be increased by \$400,000 to establish the Adjusted and Normalized Present Non-Gas Class Revenues. Any increase in revenue, net of miscellaneous revenue increases, shall be spread among all customer classes as an equal percentage of the Adjusted and Normalized Present Non-Gas Revenues. The increase so spread shall be added to the Adjusted and Normalized Present Non-Gas Class Revenues to establish the approved class non-gas rate revenues for each customer class.

b. Staff does not join as to this issue, but does not oppose this provision and does not request a hearing as to the Class Cost of Service issue.

4. **Positions of MGUA, UMKC, UCM, Superior Bowen, Constellation and ONEOK.** MGUA, UMKC, UCM and Superior Bowen join in this Stipulation as to the issues found in paragraphs 3 (Class Cost of Service), 16 (Transportation Tariffs) and 18 (Rate Design). ONEOK and Constellation join in this Stipulation as to the issues found in paragraphs 16 (Transportation Tariffs) and 17 (Transportation Threshold). MGUA, UMKC, UCM, Superior Bowen, Constellation and ONEOK do not oppose any other settled issue and do not request a hearing as to any other settled issue.

5. **Position of MDNR and Kansas City.** Counsel for the Missouri Department of Resources (“MDNR”) and the City of Kansas City, Missouri (“City”) indicate that while MDNR

and the City do not join this Stipulation, they also do not oppose the Stipulation and do not request a hearing as to the settled issues.

Rate Base, Revenue, and Expense

6. Rate Base.

- a. Total rate base before true-up items are included is \$619,181,554.
- b. The following items will be a part of the true-up in this case in regard to rate base:
 - i. Plant in service;
 - ii. Depreciation reserve;
 - iii. Deferred taxes;
 - iv. Materials and supplies;
 - v. Natural gas in storage;
 - vi. Prepaid pensions; and,
 - vii. Cash Working Capital impact of other true-up items.

7. Operating Revenues.

- a. Total as adjusted operating revenues before true up are \$186,802,700.
- b. Residential customer growth will be the only component of operating revenues to be trued-up.

8. Total Operating Expenses.

- a. Total operating expenses before income taxes and true-up items are \$137,850,000, in settlement of all Operating Expense Issues. The agreed-upon total operating expenses amount does not include expenses for the Energy Efficiency/Conservation Programs¹ or any impact that may result from the adjudication of the Rate Design Risk issue. As part of this settlement, the Safety Line Replacement Plan (SLRP) deferral balances from Case Nos. GR-98-140 and GR-2001-292 as of March 1, 2010 shall be combined and amortized over a 48 month period for financial

¹ Energy Efficiency is an issue to be decided by the Commission. If the Commission decides that energy efficiency funding should be included in rates, then total operating expenses would need to be increased by the amount of energy efficiency funding to be included in rates. Also, as clarification, funding for MGE's low-income weatherization program, which is not an issue in this proceeding, is included in the settled total operating expense figure.

statement purposes. MGE shall not seek rate recovery of any remaining unamortized costs related to those SLRP deferrals in any general rate proceeding initiated subsequent to the conclusion of Case No. GR-2009-0355.

b. The following items will be a part of the true-up in this case in regard to total operating expenses:

- i. Depreciation expense;
- ii. Payroll costs (including the effects of employee levels, wage levels and benefit levels and associated payroll taxes);
- iii. Rate case expense (to be updated through September 30, 2009 and to include an estimate for remainder of the case); and,
- iv. Income tax effects of other true-up items.

c. For purposes of the settlement the base amount for each true-up item from which to measure the true-up adjustment will be as follows:

Depreciation	\$26,224,367
Payroll, associated payroll taxes and payroll benefit costs	\$36,421,592
Rate Case expense	\$72,382

9. **Kansas Storage Gas Property Tax Accounting Authority Order.** MGE shall be granted the following accounting authority order (AAO): That Missouri Gas Energy, a division of Southern Union Company, (“MGE”) is granted an Accounting Authority Order whereby the company is authorized to record on its books a regulatory asset, which represents the expenses associated with the property tax to be paid to the state of Kansas in relation to natural gas in storage pursuant to House Substitute for Senate Bill No. 98 for 2009 and subsequent years based on assessments from Kansas taxing authorities. Missouri Gas Energy may maintain this regulatory asset on its books until the beginning of the month after the final judicial resolution of the legality of that tax. Thereafter, Missouri Gas Energy shall commence amortization of the deferred

amounts, with the amortization to be completed over a five-year period. If MGE files a general rate case prior to that final resolution, ratemaking treatment of the deferral may be considered within that case. If MGE is allowed ratemaking treatment providing a return of any AAO funds for Kansas Property Tax, there shall be no return on the Kansas Property Tax AAO funds included in rates. The Commission shall include language in its Order stating that the grant of this AAO does not in any way control how the Commission will treat this deferral for ratemaking purposes in subsequent rate cases, except there shall be no rate base treatment of deferred amounts as provided above.

10. **Tariff Liability language.** No change shall be made in this case to MGE's liability tariff language. Issues related to the liability language shall be resolved in Commission Case No. GC-2009-0036.

11. **Service fees.** MGE's tariffs shall be modified to provide for the following service fees: Service Initiation (transfers and connects): \$32; Revert-to-owner (landlord to tenant or tenant to landlord): \$15; collection and disconnection: \$24; and, Reconnect fee: \$65. The total increase in revenue resulting from the service fee increases is \$2,521,998.

12. **Credit Card Payments.** MGE shall be responsible for the per-transaction expense associated with customer credit card payments for credit card transactions processed via MGE's web site, MGE's interactive voice response system, or manually either by MGE contact center personnel (a telephone transaction) or MGE field collections personnel (a transaction in person) and this expense shall be considered in the calculation of MGE's cost of service in this case.

13. **PGA Proposals.** MGE shall, and hereby, withdraws its PGA-related proposals, including property taxes on gas held in storage, FERC-related regulatory costs, and uncollectible gas costs.

14. **Other tariff changes.**

a. MGE shall be authorized to eliminate the word “Experimental” from the title of its existing School Transportation Program tariff sheets.

b. MGE shall be authorized to eliminate the Experimental Low Income Rate tariff language from its tariff sheets.

c. MGE shall be authorized to modify Tariff Sheets Nos. 24 and 24.1 as described in **Appendix A** to restate the PGA computation volumes to reflect the current mix of pipeline transportation, storage and commodity assets under contract to MGE for purposes of calculating PGA factors after November 1, 2009.

d. Eliminate stand-alone natural gas vehicle rate, but include language in the “Applicable” sections of the SGS, LGS and LVS tariff sheets that permits gas service under those rate schedules, consistent with applicable volumetric provisions, to retail distributors for the purpose of compressing natural gas for use as a fuel in vehicular internal combustion engines.

15. **Capacity Release/Off System Sales Revenue Sharing Grid.** MGE shall replace the current sharing grid on MGE tariff Sheet No. 24.2, with the following:

Annual Capacity Release Credits and Off-System Sales Margins	MGE Retention Percentage	Firm Sales Customer Percentage
First \$1,200,000	15%	85%
Next \$1,200,000	20%	80%
Next \$1,200,000	25%	75%
Amounts Over \$3,600,000	30%	70%

16. **Transportation Tariffs.** MGE shall be authorized to modify its transportation tariff provisions as follows. No other changes to MGE’s transportation tariff shall be authorized in this case.

a. (i) On under-nominations, charge the Southern Star Central Pipeline: 1) max tariff transportation rate (approx. \$0.3275/dth); and 2) incremental/variable storage withdrawal

cost rate (No Notice Fee of \$0.0007/dth plus withdrawal rate of \$0.0114/dth); for a total of approximately \$0.3396/dth; and

(ii) On over-nominations, payment for transportation at the Southern Star Central Pipeline:

1) max tariff transportation rate (approx. \$0.3275/dth); less 2) incremental/variable storage injection rate (No Notice Fee of \$0.0007/dth plus injection rate of \$0.0114/dth); for a net credit total of approximately \$0.3154/dth;

b. Reduce monthly imbalance tolerance by 5% at each level of penalty;

c. MGE shall file tariff sheets containing the language concerning Operational Flow Orders (OFO) found in **Appendix B**; and,

d. Receive changes to pools no later than four (4) business days prior to the end of each month.

17. Transportation Threshold.

a. MGE agrees that it has no objection in principle to lowering the threshold for eligibility for transportation service.

b. No later than March 15, 2010, MGE will file a revised transportation tariff lowering the threshold for eligibility to include larger customers within the LGS rate class of MGE with a proposed effective date of September 1, 2010.

c. The parties request that the Commission establish a docket, when the above tariff is filed, the purpose of which is to examine and resolve issues attendant to lowering the transportation volume threshold on MGE's system, with the goal of implementing that service no later than November 1, 2010. All parties to Case No. GR-2009-0355 will be permitted to participate in that proceeding without filing applications for intervention. Other parties may intervene and participate in accordance with applicable Commission rules.

d. The revised transportation tariff to be filed by MGE will, among other things, reflect the cost of telemetry equipment to transportation customers, which shall be no more than the actual, new cost of installed telemetry equipment.

e. MGE, along with the other parties in the case, will endeavor to have the revised transportation threshold tariff (including the telemetry costs tariff) become effective no later than September 1, 2010 and in time to enable new transportation customers to be able to opt-in to transportation service for the 2010-2011 heating season.

18. Rate Design.

a. LGS- Equal percentage increases to fixed charge and volumetric rate elements. LGS for customers whose usage exceeds 10,000 Ccf on an annual basis, but whose usage does not exceed 30,000 Ccf in any one month. The seasonal differential shall be retained; and,

b. LVS - Equal percentage increases to fixed charge and volumetric rate elements after applying the adjustment referenced in Paragraph 3(a) above. The seasonal differential shall be retained.

Depreciation.

19. The conditions ordered by the Commission in Case No. GE-2010-0030 shall also remain in effect, as well, for purposes of this Stipulation and Agreement. Those agreed-upon conditions are:

a. MGE shall retain the current depreciation rates, as listed in **Appendix C** to this Stipulation and Agreement.

b. MGE may add a new depreciation rate for a transportation subaccount, which was not part of the last rate case, as shown in **Appendix C**.

c. MGE shall submit a depreciation study no later than June 30, 2010, which conforms to, among other things, Commission Rule 4 CSR 240-3.275 and include actuarial analysis for all accounts inclusive, identifying those specific accounts that lack sufficient data to perform an actuarial analysis.

d. MGE shall use the currently authorized Missouri depreciation rates for General Plant Accounts for the respective functional accounts of its Corporate Plant accounts.

e. MGE shall maintain mortality records in compliance with Commission Rule 4 CSR 240-40.040 Uniform System of Accounts – Gas Corporations and 4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies.

f. MGE shall account for all payments from other parties when it is required to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for purposes of rendering utility service, as credits to the depreciation reserve in compliance with Commission Rule 4 CSR 240-040 Uniform System of Accounts – Gas Corporations and appropriately identify amounts in their Annual Reports.

g. MGE shall establish and adopt accounting policies or procedures of separation and allocation removal costs of plant that is being retired from costs to install new plant.

h. MGE shall continue to keep a separate accounting of its amounts accrued for recovery of its initial investment in plant from the amounts accrued for the cost of removal, consistent with the Commission's Third Report and Order in Laclede Case No. GR-99-315.

Pensions (FAS87) and Other Post-Employment Benefits (FAS106)

20. The Parties agree that the rates established in this case for Missouri Gas Energy, a division of Southern Union Company ("Company") for pension expense include an allowance of \$10,000,000. Additionally, the rates established in this case include recovery of the amortization of

prepaid pension assets established in prior cases and the amortization of the prepaid pension asset established in this case as follows:

- a. \$1,139,310 - GR-2004-0209;
- b. \$803,300 - GR-2006-0422;
- c. \$2,828,673 - GR-2009-0355

(All amounts above, including the \$10,000,000, are stated prior to application of transfer rate.)

21. Recovery in rates of the prepaid pension asset amortizations listed above shall continue in subsequent rate cases as necessary until the asset balances are eliminated. The Company shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the cash contributions made to the pension trusts, which are used in setting rates and the pension expense as recorded for financial reporting purposes as determined in accordance with generally accepted accounting principles (GAAP) pursuant to Financial Accounting Standard (FAS) 87 and FAS 88 (or such standard as the Financial Accounting Standards Board (FASB) may issue to supersede, amend, or interpret the existing standards), and that such difference shall be subject to recovery from or return to customers in future rates.

22. The difference between the amount of pension expense included in Company's rates and the amount funded by Company shall be included in the Company's rate base in future rate proceedings.

23. The Company shall be allowed rate recovery for contributions it makes to its pension trust that exceed the ERISA minimum for the purpose of reducing Pension Benefit Guarantee Corporation (PBGC) variable premiums.

24. Additional contributions made pursuant to this Paragraph shall increase Company's

rate base by increasing the prepaid pension asset and/or reducing the accrued liability, and shall receive regulatory treatment as described in paragraph 20 of this agreement. Company shall inform the Staff and Public Counsel of contributions of additional amounts to its pension trust funds pursuant to this Paragraph in a timely manner.

25. The provisions of FAS 158 require certain adjustments to the prepaid pension or OPEBs asset and/or accrued pension or OPEBs liability with a corresponding adjustment to equity (i.e., decreases/increases to Other Comprehensive Income). The Company shall be allowed to set up a regulatory asset/liability to offset any adjustments that would otherwise be recorded to equity caused by applying the provisions of FAS 158 or any other FASB statement or procedure that requires accounting adjustments to equity due to the funded status or other attributes of the pension or OPEB plans. The parties acknowledge that the adjustments described in this paragraph shall not increase or decrease rate base.

26. The Parties further agree that Company shall be authorized to record expense under FAS 87, for financial reporting purposes only, in a manner that does not require adjustment for amortization procedures that vary from FAS minimum amortization requirements, including without limitation, a five year amortization of the average of unrecognized gains or losses over the past five fiscal periods, subject to a minimum amortization to the extent that the current unrecognized gains or losses fall outside of a 10% corridor as described in FAS 87 and FAS 106. The minimum amortization of unrecognized gains or losses falling outside of the 10% corridor shall be made over the average remaining service life of participants for financial reporting purposes.

27. The Parties further agree that gains and losses for all pension lump-sum settlements shall be calculated only to the minimum extent permitted by FAS 88.

28. Due to the Pension Protection Act of 2006 (PPA), MGE may be required to make contributions in excess of the Minimum ERISA amount in order to avoid benefit restrictions under the PPA. Such contributions will be examined in the context of future rate cases and a determination will be made at that time as to the appropriate and proper level recognized for ratemaking as a Net Prepaid Pension Asset.

29. The Parties agree that the rates resulting from this case also make provision for the recovery of Other Post-Employment Benefits ("OPEBs") costs on a FAS 106 basis. The Parties further agree that the Company shall continue to be authorized to apply its accounting policy relative to the OPEBs consistent with that specified for FAS 87 above, for financial reporting purposes only. For ratemaking purposes, the OPEBs expense in this case was determined using a fair value method and a five-year amortization of the most recent five-year average of the balance of unrecognized gains and losses as calculated by the Company's actuary, subject to applying the minimum amortization requirements for unrecognized gains and losses as required under SFAS 106.

30. The Company shall continue to use this ratemaking methodology to determine amounts funded into the plans. The parties agree that the rates established in this case for FAS 106 expenses include an allowance of \$2,664,792 (amount stated prior to application of transfer rate), based on the adjusted fiscal 2008 calculation of FAS 106 expense of \$0 and the amortization of the Transition Obligation of \$2,664,792. The Parties further agree that the Company shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between such expense used in setting rates and the FAS 106 financial reporting expense as actually incurred (or such standard as the FASB may issue to supersede, amend or interpret the existing standards), and that such difference shall be subject to recovery from or return to customers in future rates. The

difference between the amount of OPEB expense included in Company's rates and the amount funded by Company shall be included in the Company's rate base in future rate proceedings.

31. The Company agrees that it shall fully fund its ongoing level of FAS 106 expense, as calculated above for ratemaking purposes, on a prospective basis.

32. In the event that FAS 106 expense becomes negative, the Company shall set up a regulatory liability to offset the negative expense. In future years, when FAS 106 expense becomes positive again, the amount in rates will remain zero until the prepaid asset, if any, that was created by the negative expense is reduced to zero. The regulatory liability will be reduced by the same rate as the prepaid asset. This regulatory liability is a non-cash item and should be excluded from rate base in future years.

33. **“Catch-Up” OPEB Funding.** The Company will pay \$14,368,000 (stated before application of interest) into its OPEBs trust funds, spread ratably over no more than three (3) years. The initial payment will be made no later than May 1, 2010, with the remaining payments due no later than the first two annual anniversary dates of the initial payment. The Company will apply an interest rate that is equivalent to the Weighted Average Cost of Capital as determined by the Commission in this case and apply it to the unfunded balance over the three-year payment period. Interest on the unfunded balance shall accrue beginning May 1, 2009.

34. **Billing Lag Study.** MGE agrees to perform an analysis of its current customer billing and mailing practices to determine whether its cash working capital billing lag can be reduced to the benefit of its customers while still maintaining reasonable standards of customer service. Such a study shall be completed and presented to the Staff and the Office of the Public Counsel within two years of the effective date of rates resulting from this proceeding, or at the time of MGE's next general rate filing in Missouri, whichever comes first.

35. **Testimony Received Into Evidence.** Unless called by the Commission to respond to questions, in the event the Commission approves this Stipulation without modification or condition, the prefiled testimony (including all exhibits, appendices, schedules, etc. attached thereto) and reports of all remaining witnesses in this proceeding relating to the settled issues shall be received into evidence without the necessity of those witnesses taking the witness stand.

General Provisions

36. This Stipulation is being entered into solely for the purpose of settling the issues specified in Case No. GR-2009-0355. Unless otherwise explicitly provided herein, none of the Parties to this Stipulation shall be deemed to have approved, accepted, agreed, consented or acquiesced to any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue-related methodology, cost of capital methodology or capital structure, rate design principle or methodology, or depreciation principle or methodology, and except as explicitly provided herein, none of the Parties shall be prejudiced or bound in any manner by the terms of this Stipulation (whether this Stipulation is approved or not) in this or any other proceeding, other than a proceeding limited to enforce the terms of this Stipulation.

37. This Stipulation has resulted from extensive negotiations among the Parties and the terms hereof are interdependent. If the Commission does not approve this Stipulation unconditionally and without modification, then this Stipulation shall be void and no Party shall be bound by any of the agreements or provisions hereof, except as explicitly provided herein.

38. If the Commission does not approve this Stipulation without condition or modification, and notwithstanding the provision herein that it shall become void; neither this Stipulation nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Party has for a decision in accordance

with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the Parties shall retain all procedural and due process rights as fully as though this Stipulation had not been presented for approval, and any suggestions, memoranda, testimony, or exhibits that have been offered or received in support of this Stipulation shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any purpose whatsoever.

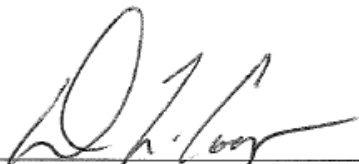
39. In the event the Commission approves the specific terms of this Stipulation without condition or modification, and as to the specified issues, the Parties waive their respective rights to call, examine, and cross-examine witnesses pursuant to § 536.070(2) RSMo 2000; present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to RSMo §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §386.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. These waivers apply only to a Commission order approving this Stipulation without condition or modification issued in this above-captioned proceeding and only to the issues that are resolved hereby. These waivers do not apply to any matters raised in any prior or subsequent Commission proceeding nor any matters not explicitly addressed by this Stipulation.

40. If requested by the Commission, the Staff may file suggestions or a memorandum in support of this Stipulation. Each of the Parties shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum, which shall also be served on all Parties. The contents of any suggestions or memorandum provided

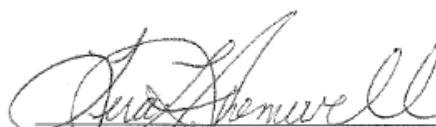
by any Party are its own and are not acquiesced in or otherwise adopted by the other Parties to this Stipulation, whether or not the Commission approves and adopts this Stipulation.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Partial Stipulation and Agreement.

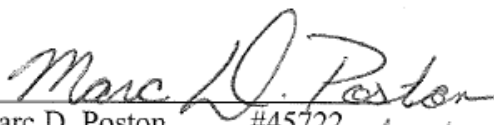
Respectfully submitted,



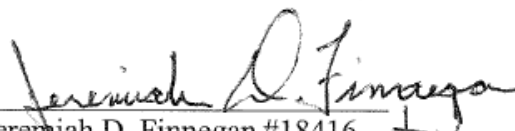
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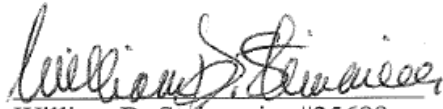
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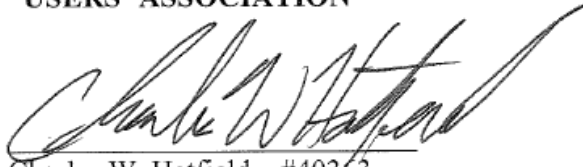
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 5th day of November, 2009, to:

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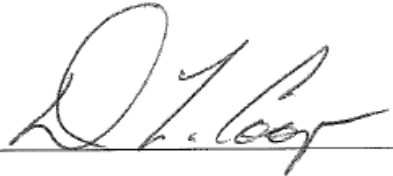
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APPENDICES

APPENDIX A – Tariff Sheets 24 and 24.1

APPENDIX B – OFO Tariff Language

APPENDIX C – Depreciation Rates